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THE WHITE HOUSE WASHINGTON

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CABINET AFFAIRS STAFFING MEMORANDUM

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THE WHITE HOUSE WASHINGTON

CABINET COUNCIL ON MANAGEMENT AND ADMINISTRATION

Meeting #24
February 2, 1984
The Roosevelt Room

MINUTES

Attendees: Meese, Walters, Svahn, Carmen, McNamar, Niskanen, Brown, Taft, Burnley, Cornelius, Fuller, Wright, Jenkins, Bledsoe, Chapman, Gibson, Triplett, Hesse, O'Shaughnessy, Cribb, R. Walters, Dierman, Lordan.

Federal Field Structure (CM#365)

Mr. Carmen presented the final report of the Working Group, an analysis of agency responses to the President's memorandum of August 31, 1983. He reported that 33,710 positions and \$1.2 billion had been saved between 1981-83, that 12,700 positions and \$1.2 billion are proposed for saving in 1984, and an additional 3,500 positions and \$.5 billion are under study for savings in 1985 and beyond. He also noted an increase in 1983 of 7,000 field positions, following two years of decreases. Mr. Meese suggested that the cause could be the heightened priorities in programs the Administration is strengthening.

Mr. Carmen pointed out several factors working against cutbacks in field positions, including congressional sensitivity to changes, and a lack of commitment on the part of agency program officials to the Presidenc's field reform goals, thus placing the Assistant Secretaries for Management at a disadvantage. Mr. Wright noted that the new proposal to establish a President's Council on Management Improvement may alleviate this latter problem. Mr. Carmen added that congressional opposition could be softened by stressing improved delivery of services. Mr. Wright suggested that reforms be a government-wide package to more effectively withstand opposition.

Mr. Carmen recommended that agencies must take the initiative, or OMB should manage the reductions. In any case, pressure from the President must be continued. Mr. Meese thanked Mr. Carmen for the hard work by him and his Working Group.

Action: Mr. Meese agreed that the pressure must be maintained, and, requested Mr. Carmen to present the Working Group's findings and recommendations to the President at a full Cabinet meeting.

GSA Management Initiatives

Mr. Meese pointed out that Mr. Carmen will soon leave GSA, and invited him to share with the Council his experiences and observations that may have applicability to other agencies.

Mr. Carmen stressed the importance of finding and hiring people who can provide the right kind of leadership. Such individuals must have faith in the President's program and priorities, personal integrity in dealing with others, political astuteness particularly in working with Congress, and management skills.

He reported that as GSA got smaller under his management, it got better -- an approach that other agencies should try. And, as people individually achieve more, morale goes up, and they feel better about themselves and their jobs. He said he was impressed with career employees, and that there were few differences, good or bad, between them and their private sector counterparts.

He reminded the Council that while much had been achieved, much remains to be done. In workspace management, for example, only \$32 million was saved out of a potential \$1.8 billion; and in surplus property, \$190 million was saved out of a potential \$1.25 billion. He stressed that success in these and other initiatives depends on improvements in leadership, team support, and agency performance.

Mr. Meese thanked Mr. Carmen for his remarks, and presented a letter of appreciation from the Cabinet Council, commending him for his contributions, leadership, and innovative spirit.

Progress Payments Controls (CM#454)

Mr. Wright introduced Mr. Lordan, who outlined the background of the issue, and five options: (1) permit firms to propose alternative financing arrangements; (2) retain the current policy, but include cash management principles; (3) accept the Grace Commission's and Senator Roth's recommendations to reduce progress payments to pre-1981 levels; (4) accept the Grace/Roth recommendations, and tighten up application policies in OMB Circular A-125; or (5) do nothing at this time.

OMB favored option 2.

Mr. Lordan explained that permissable progress payments were increased in 1981 in response to high interest rates which were creating burdens on firms in meeting contract obligations. Mr. Meese noted that this may now be providing unnecessary advantages to the private sector, since interest rates are much lower.

Mr. Wright suggested that emphasis should be placed on allowing progress payments at current levels only for programs of highest priority. Mr. McNamar advocated terms that assured passing savings on to the taxpayers. Mr. Jenkins expressed doubt that all progress payments are made with borrowed Treasury funds.

Mr. Fuller noted the cost of money to the government may be less than to the private sector, and that major weapons manufacturers are very concerned about too much retrenchment in this area.

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Mr. Carmen suggested shifting the cost of borrowing for progress payments to the agencies involved, so that true costs are reflected in their budgets. Mr. Taft responded that this might "chase" the dollar further than would be practical, and pointed out that payments are vital to many smaller businesses because they permit bidding in cases not possible before. He stated that Defense would have no objection to option 2.

Mr. McNamar stated that payment rates have been heavily lobbied, and are overly generous in favor of contractors. Mr. Fuller pointed out that payments to prime contractors are often passed on to subcontractors, thus having an impact all along the line. Mr. Svahn agreed that small contractors would suffer from tightening up the payments, and gave examples of the impact on States of analogous grant payments reductions several years ago. Mr. Brown noted that payments permit a lower bottom line price. Mr. Burnley pointed out that progress payments are one of the costs of doing business, and that our policy should ensure that such costs are taken into account.

Mr. Meese noted that a consensus seemed to exist in favor of option 2. Mr. Fuller suggested industry consultations to determine the impact of the option. Mr. McNamar suggested an analysis of how much gets passed on to the subcontractors.

Mr. Niskanen stressed that progress payments policy should contain the right overall incentives for economies, and that agencies should choose the course that best meets the needs of the contract in question. He advocated permitting agencies to make progress payments, but, if they choose to do so, they must carry the interest incurred. Mr. Wright noted the compatibility of this approach with option 2. Mr. McNamar expressed interest in seeing the Niskanen approach written up.

Action: Mr. Meese asked that a new paper be prepared to include option 2 along with Mr. Niskanen's suggested approach, as a CCMA recommendation for the next meeting with the President.

Consulting Services Controls (CM#416)

Mr. Meese noted that time had run out, and asked Mr. Brown to present his Working Group's findings at the next CCMA Planning Meeting. He asked Mr. Bledsoe to seek the meeting a few days prior to the next CCMA with the President, so that the consulting issue would possibly be ready for the President's attention.

THE WHITE HOUSE

WASHINGTON

CABINET COUNCIL ON MANAGEMENT AND ADMINISTRATION

Meeting #25 February 14, 1984 The Roosevelt Room

MINUTES

Attendees: Meese, Walters, Carmen, Devine, McNamar, Niskanen, Brown, Smith, Lyng, Burnley, Wright, Wade, Bledsoe, Gibson, Triplett, O'Shaughnessy, R. Walters.

Consultant Services Controls (CM#416)

Mr. Brown summarized the findings and recommendations of the Working Group on Consultant Services Controls. The Group recommended broadening the definition to include "advisory and assistance" services, adjusting the Federal Procurement Data System, and establishing additional controls. Mr. Brown reiterated proposals that a senior control official be named in each agency and that a central Federal clearinghouse and evaluation office be set up, perhaps in OMB.

The expanded definition would extend coverage to about \$15.5 billion of contracts, most of which are in DOD. The clearinghouse would help reduce duplication of consulting work, and provide data now unavailable. Messrs. Smith and O'Shaughnessy, who led task-teams of the working group, elaborated on the controls and the proposed definitions. Mr.O'Shaughnessy described the categories excluded from the definition. Mr. Smith stressed the need for greater agency attention if controls are to be successful.

Mr. Wade pointed out that the broadened definition would include more than just paper studies, such as product-oriented services which are already managed fairly well in DOD. Mr. Brown replied that weapons contracts include much information and advice that could and should be provided, given the many specialists.

Mr. Walters stressed the usefulness of outside advice, particularly when well-managed. Mr. Burnley supported the acquisition of quality information from outside the government. Mr. Meese emphasized that the study was aimed at improved evaluation and management of consulting contracts, not merely fewer contracts, and commended Mr. Brown and his group for an excellent job.

Mr. McNamar suggested "grading" consultant performance, and for interagency sharing of this information. Mr. Carmen explained the suspension and debarment procedures for contract violators, but pointed out that the matter of unsatisfactory products is a tougher problem, with no easy answers. Mr. Brown stated that recommendations based on evaluations would help, and restated the need for the evaluator not to be in the same office that procures the advisory service.

Mr. Wright explained how the Reform 88' preclearance system could help, but noted that it does not now include poor performance measures. He also suggested that the proposed President's Council on Management Improvement could assist in efforts to evaluate consultant firms.

Mr. Brown raised the issue of how the working group's recommendations should be implemented. Mr. Smith suggested an Executive Order. Mr. Meese agreed, saying an Executive Order could stress the importance of improvement in this area, and direct agencies to appoint a consulting "czar," leaving the other recommendations to be communicated as other guidelines.

Mr. Wright drew the Cabinet Council's attention to the recommendation which urges a sampling of engineering, technical, and specialized contracts. He noted the size and complexity of this undertaking, and suggested that the President's Council on Integrity and Efficiency could play an important role. Mr. Meese agreed, and said the Inspectors General could perform sample audits for the entire consulting controls effort.

Action: Mr. Meese asked Messrs. Bledsoe, Wright, and Brown to determine which recommendations should be reflected in the Executive Order, and propose how the others should handled, in time for the next CCMA meeting with President.

Personnel Management Improvements (CM#459)

Mr. McNamar updated the Cabinet Council on the activities of his Working Group on Employee Morale. He explained the difficulty in clearly scoping morale problems, but reported that discussions with key employee groups, including the Public Employees Roundtable, on such topics as merit pay, bonus procedures, and hiring and firing policies are promising. He said the working group is focusing on both short-term and long-term strategies for improving employee relations.

Mr. McNamar noted that incentives do not exist for motivating Federal managers to manage efficiently. For example, if an office director cuts his staff by 50%, he is likely to be reclassified at a lower grade, rather than be rewarded for doing the job with less people. He also urged that Administration officials make it clear that cutback and reform efforts are aimed at improving the Federal system, not hurting Federal employees.

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Mr. Meese said these ideas are right on track, and encouraged continuing to meet with the Public Employees Roundtable. Mr. Carmen mentioned that top career managers should be drawn in to help devise steps to improve morale of the career sevice. Mr. Meese agreed, but noted that changes in the system should be led by appointed officials.

Mr. Walters drew a distinction between purely personnel strategies and morale, saying that human motivation and goals are more properly the subjects to address. Mr. Meese agreed, noting that all too often in government, personnel performance and motivation are ignored by top management. He said that the private sector usually accords higher positions and priority to the personnel management/employee relations function than the government does.

Mr. Brown described the employee orientation program run by the Office of the Secretary at Commerce. Mr. Burnley stated that a major morale problem he has noticed is "cronyism" in the distribution of SES bonuses. Mr. Devine said that OPM is working on this and many other problems through the personnel directors group, and that he supports the efforts of the working group in seeking concrete steps for the President and the Administration to take. He stated that he has found that agencies which have effective Executive Resource Boards have far fewer morale problems than those that do not. He cautioned that many different attitudes exist at various levels within the career service, and that a given remedy may work at one level, but not at another.

Action: Mr. Meese thanked Mr. McNamar and his group for their efforts in this difficult area, and reiterated the importance of their work toward achieving the primary goal — improved productivity. He directed the Working Group to produce broad as well as specific recommendations that can be taken to the President for his approval and action. He suggested, for example, it would be helpful for each agency head to be given a series of steps for improving employee morale. He stressed that major management improvements will benefit all concerned, especially the taxpayer.

CABINET COUNCIL ON MANAGEMENT AND ADMINISTRATION

Meeting #26
February 23, 1984, 2:00 p.m.
The Cabinet Room

MINUTES

Attendees:

The President, The Vice President, Meese, Weinberger, W. Smith, Clark, Baldrige, Heckler, Hodel, Feldstein, Carmen, Devine, L. Smith, Svahn, McNamar, Burnley, Lyng, Brown, Wright, Alvarez, Fuller, Jenkins, Cribb, Bledsoe, Verstandig, Triplett, Gibson, Risque, Bailey, Chapman.

Federal Field Structure (CM #365)

Mr. Meese provided background information about the need to study the Federal field organization, since over 85% of employees are located outside the Washington, D.C. area. Mr. Carmen, chairman of the Field Structure Working Group described results of the analysis of department and agency plans produced in response to the President's memorandum of August 31, 1983. Plans showed that agencies have reduced field organizations by 33,710 positions between 1981 and 1983, with savings of about \$1.2 billion. Further reductions of over 16,000 positions are anticipated, with savings approximating \$1.4 billion.

Mr. Carmen indicated, however, that determined leadership and genuine commitment will be needed if we are to meet our goals of improving service delivery, streamlining the Federal structure, and reducing overall size and cost. Several agencies were cited for positive efforts, e.g. Commerce, GSA, HHS, and Labor. Since Congressional resistance is expected, a concerted, team approach with Presidential backing was prescribed as being necessary.

The President thanked the Working Group for the fine effort. He felt there is a tendency to accept institutions and not question them enough. He cited an example in California where cuts were made, but when inattention occurred, organizations crept back up to old levels. He counseled CCMA members to remember what we came here to do, and to look harder for ways to achieve our reduction goals. The President advised that no government voluntarily reduces itself in size.

Reform 88 (CM #312)

Mr. Wright presented a "report card" on the Reform 88 President's Management Program. He reviewed the historical growth of the Federal government, including observations by various presidents about its management. He reported that management systems were developed during this period as adaptations rather than to meet specific needs. The result has been an explosion of systems, few of which are compatible or responsive to management leadership.

The following five strategies for achieving better government management, and progress in each were outlined by Mr. Wright:

- 1. Control Program Growth Through Budget/Legislation. This includes reducing total funding to force efficiencies. Good progress is being made as seen by a nearly zero real growth in total domestic spending (1985 dollars), and a 34% decline in real domestic discretionary spending from a 1978 peak.
- Identify and Reduce Fraud and Waste. This strategy includes efforts by Inspectors General. Good progress has been made. Savings and better use of funds has exceeded \$32B. The value of audit reports awaiting followup has decreased from \$1.5B in 1981 to \$81M in 1983. It also includes improved cash management. Lockboxes, electronic funds transfers, and timely payments have contributed to excellent progress and savings of \$3.5B. Another targeted area is credit management. this highly successful area, the delinquency increase rate has dropped from 32% in the 1981-82 period to 3% in 1982-83. Actions taken have resulted in \$12.5B more collected in 1983 and returned to Treasury. The fourth area is procurement, where progress has been slow but sure. The final target is to strengthen internal financial controls, an effort just beginning, but which has identified weaknesses in ADP, debt collection, financial systems, cash management, property management, procurement, and entitlements management.
- 3. Improve Agency Operations. Target areas include headquarters' consolidations, field consolidations, productivity improvement, private sector projects, workspace management, paperwork reduction, and reductions in travel, publications, audiovisuals, and printing plants. Results include consolidations at DOL that led to a \$21.6M outlay reduction, travel cost decreases of \$746M, savings in printing plant costs of \$50M and publications of \$35M, and identification of other savings to be achieved in 1985 and beyond. Thus, results are mixed, but positive.
- 4. Develop Government-Wide Management Systems. This strategy includes automation of the budget process, where budget printing costs are down 62% since 1979; financial/accounting systems coordination, for which government-wide planning and development have begun; payroll/personnel systems modernization where 150 systems will be reduced to 10 by 1988; better ADP management for which a good beginning has occurred toward saving \$50 million in 1985; and development of improved financial and program management information systems. A model financial MIS will be completed in October, 1984, with development of model program MIS' just beginning.
- 5. <u>Improve Delivery Systems</u>. This strategy includes achievement of savings through enhanced Federalism programs, streamlining the Federal field structure, eliminating program disincentives, and making various other administrative changes.

The President indicated he very much wants Congress to be aware of these initiatives and to be required to look at them. Several Cabinet members cited examples of congressional blockage of proposed management cost savings efforts. Mr. Carmen indicated that we must give the leadership, since the bureaucracy has good managers. On a related topic, Mr. Meese reminded department heads that we should continue to monitor hiring during 1984, to ensure that the reduction goal of 75,000 FTE workyears set by the President will be reached. We are very close, but a sustained effort by all is required.

Action: Mr. Meese recommended approval of three proposals aimed at carrying out the above strategies: prepare a report for Congress containing FY 1985 management initiatives; expand the OMB management review for the FY 1986 budget process; and, establish a President's Council on Management Improvement with membership of assistant secretaries for management, or equivalent. The President approved the three proposals.

CABINET COUNCIL ON MANAGEMENT AND ADMINISTRATION

Minutes

Cabinet Meeting February 28, 1984 2:00 p.m. - Cabinet Room

The President, The Vice President, Meese, W. Smith, Block, Clark, Hodel, Donovan, Pierce, Bell, McNamar, Taft, Brown, Burnley, Wright, Fairbanks, Feldstein, Fielding, Fuller, Oglesby, Svahn, Verstandig, Whittlesey, Cribb, Cicconi, Murphy, Lighthizer, Hart, Bledsoe, Gibson, Devine, Carmen, Kline, Neuman, Simon, Jenkins.

Consultant Services Controls (CM #416)

Mr. Meese introduced this issue as another initiative aimed at management improvement. Mr. Brown presented the results of a CCMA working group that examined use of consultant services and agency control systems for monitoring such usage. The working group found that the definition of what constituted "consulting services" was one of the problems faced in the study, and that agency control systems differed considerably. The working group had previously recommended that agencies report 1983 expenditures and estimates for 1985, and appoint a single key official to "manage" the use of consultants in their organization.

The working group found that "advisory and assistance" services to the government cost over \$15 billion, instead of the \$1.5 billion now estimated for use of "consultants." If other related services are added, the total is at \$30 billion. Mr. Brown gave a breakdown of costs by category and major agency users. Besides adoption of the broader definition, and appointment of a single agency official to administer consultant control systems, the working group proposed that advisory and assistance services by individuals and organizations be evaluated, and that a better system be developed for government-wide sharing of data and evaluations of consultant performance. Further recommendations pertained to use of incentive systems for savings in this area, and expanded use of Inspectors General.

Secretary Donovan reported that Labor has already reduced their use of outside consultants by about \$22 million. Mr. Meese commented that the overall recommendations were not intended to conflict with attempts to contract out more services, only to manage them better. Secretary Block agreed with the recommendations provided the cooperative efforts with OMB were properly spelled out. Mr. Wright indicated that the newly-approved President's Council on Management Improvement would be involved in the design of guidelines. Attorney General Smith asked if the figures in the study included large laboratories, such as those run by universities. Secretary Hodel indicated they did not. Mr. Taft indicated that Defense concurs in the recommendations of

the working group, and will work with OMB to support the initiative toward better management. Mr. Wright said that the potential for major improvements is greater because of the developmental and monitoring frameworks that are now in place.

Action: The President approved development of an executive order requiring departments and agencies to control the use of advisory and assistance services, and to name a single official to manage this effort. He authorized OMB to cooperate with departments and agencies in implementing recommendations by the working group. He also directed the Inspectors General to perform checks and audits of the systems established in their agencies for managing use and control of advisory and assistance services.

Advisory Committees Review (CM #425)

Mr. Chapman provided background of a study conducted by the Office of Planning and Evaluation, in which the approximately 900 Federal advisory committees were reviewed. Committees, about 70% of which are estabished by statute, include about 20,000 advisors at an expense of \$74,000. The study found a general absence of high-level agency review of committees, making their work of more relevance to mid-level and outside interests. Further, another study had concluded that committee participants were displeased that their work was not receiving sufficient agency attention. An analysis of reports submitted about advisory committees indicated that about one-third, 284, had not met within the past year, and that a large number of those reported no significant accomplishments within the past reporting period.

On the basis of these findings it was recommended that agency senior managers review their use of committees, institute better management of those which perform services of benefit to the government, and eliminate those that do not. Secretary Block concurred that there will be criticism if the recommendations of advisory committees are not used or at least considered. Mr. Meese indicated that the intent is to only get rid of those that are not necessary. The President asked about compensation of committee members. Mr. Chapman said that some are compensated, some receive only expenses, and others donate time and expenses.

Action: The President approved issuance of a memorandum directing department and agency heads to assure that advisory committees are effectively managed, that they are provided with adequate policy guidance, that recommendations are evaluated, and that cost savings are achieved wherever possible. In addition, agencies are to eliminate committees not producing significant results, or whose advice is no longer needed by the government.